

VZCZCXRO1010
OO RUEHLH RUEHPW
DE RUEHIL #2201/01 1751242
ZNR UUUUU ZZH
O 231242Z JUN 08
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7482
INFO RUEHBUL/AMEMBASSY KABUL PRIORITY 8763
RUEHLO/AMEMBASSY LONDON PRIORITY 8150
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 3426
RUEHKP/AMCONSUL KARACHI PRIORITY 9919
RUEHLH/AMCONSUL LAHORE PRIORITY 5663
RUEHPW/AMCONSUL PESHAWAR PRIORITY 4432
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY
RHWSMRC/USCINCCENT MACDILL AFB FL PRIORITY
RUEAIIA/CIA WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ISLAMABAD 002201

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [PREL](#) [PTER](#) [PGOV](#) [PK](#)

SUBJECT: SCENESETTER FOR CODEL CARDIN

¶1. (SBU) Summary. Pakistan's newly elected civilian government remains a fragile coalition beset by differences over how to restore the deposed judiciary and President Musharraf's future. Continuing political deadlock over the judiciary has seriously undermined the GOP's ability to tackle growing economic and security challenges. We look forward to briefing you on political, economic and security developments. End Summary.

Political Overview

¶2. (SBU) The coalition government between the Pakistan People's Party (PPP) and the Pakistan Muslim League-N (PML-N) continues to hold despite strains over how to restore the judges fired by President Musharraf in November 2007. Until that issue is resolved, the PML-N ministers have withdrawn from the cabinet. The ongoing deadlock has seriously undermined the GOP's ability to tackle growing economic and security challenges. PPP leader Asif Zardari and PML-N leader Nawaz Sharif agreed to passage of a budget June 21 that expands the number of Supreme Court justices from 16- to 9; that should allow the government to bring the deposed judges back on board. Still undetermined, however, is the fate of former Chief Justice Iftikhar Chaudhry.

¶3. (SBU) According to a recent poll, Nawaz's popularity has risen to 86%; the poll indicates that if an election were held today, the PML-N would win 42% of the vote compared to 32% for the PPP. Nawaz has been touting a simple pro-judiciary/anti-Musharraf message. Zardari's position is more nuanced; he is calling for restoration of the judiciary minus Chaudhry via a package of constitutional reforms that would denude the presidency of key powers. He also is proclaiming that a PPP member will soon be in the presidency but has stopped short of supporting outright impeachment of Musharraf. Although the PPP remains the dominant party in the coalition, Nawaz's strength is growing. He will win a National Assembly seat in the June 26 by-elections, and his brother Shahbaz Sharif has just become Chief Minister in Punjab, the political and economic heartland of Pakistan.

¶4. (SBU) Musharraf has said publicly that he will not resign but will accept whatever the parliament decides about his fate. Should a motion of impeachment be brought against him, Musharraf will have an opportunity to defend himself in parliament. A two-thirds majority of a joint sitting of the National Assembly and the Senate is required to impeach a president; Musharraf's party and its allies still control the Senate, and there is debate over whether the coalition currently has the votes to impeach. Indirect Senate

elections in March 2009 will likely bring the PPP and/or the PML-N to power in the Senate.

Security Situation

15. (SBU) We will provide you with an in-depth security brief when you arrive. The GOP has announced a new policy of outreach, not (they insist) to militants, but to tribal leaders who provide support networks for the Taliban, foreign al Qaeda militants, and a growing coterie of criminals who are colluding with militants. We remain skeptical that negotiated and pending agreements with these tribal leaders are enforceable. We have expressed our concern that these agreements must prohibit cross-border attacks on U.S./ISAF forces in Afghanistan. Cross-border attacks have doubled compared to the same period last year.

16. (SBU) Pakistan has agreed to participate in a combined investigation (with the U.S. and Afghanistan) of the June 10 incident in which 11 Pakistani military personnel were killed by U.S. strikes. The U.S. regrets the loss of life that occurred. Until this investigation is complete, however, we are refraining from further public comment. We are encouraging Pakistan to move forward on manning a tripartite Border Coordination Center at Torkham, Afghanistan (the first of six BCCs) as a way to provide real-time intelligence that could prevent future incidents.

Economic Situation

ISLAMABAD 00002201 002 OF 002

17. (SBU) Following five years of seven percent annual economic growth, Pakistan is currently facing severe economic challenges. Rolling electricity shortages, rising food costs and the GOP's decision to subsidize fuel and energy have contributed to deterioration of all major economic indicators. Economic growth for the current fiscal year is expected to be 5.8%, well below a target of 7.2%. The fiscal deficit is projected to be 7% of GDP versus a target of 4%; GOP borrowing from the State Bank of Pakistan (SBP) reached an all-time high of USD eight billion for the first ten months of the fiscal year. As of early May 2008, the GOP had USD 13.98 billion in outstanding debt to the SBP, or 9% of GDP. Pakistan's trade deficit rose to USD 17 billion, up from USD 11 billion last year, as lackluster export growth fell far short of increasing imports. Savings and foreign investment both declined, further impacting overall GDP growth.

18. (SBU) The GOP passed its USD 31 billion 2008-2009 fiscal year budget on June 21. In addition to setting revenue targets and expenditure levels, the budget also includes assumptions on economic growth and economic policy measures, setting an overly optimistic growth figure of 5.5%. The GOP plans to reduce the fiscal deficit from 9% to 4.7% of GDP; the imposition of additional taxes will increase revenue collection by 25%. Resumption of the privatization program, decreases in subsidies and increased duties on luxury goods are expected to decrease the current account deficit from 7% to 6% of GDP.

19. (SBU) Energy is a growing concern for Pakistan and threatens to further impact the economy. Not a single megawatt has been added to the national grid since 2000, despite population growth and economic expansion. Pakistan currently suffers from an energy shortfall of between 4,000 to 4,500 megawatts per day with some regions and cities suffering from blackouts for up to 12 hours per day. Industrial production is threatened as factories are unable to produce goods and unemployment is rising. Petroleum and electricity subsidies account for the bulk and have continued to rise as international oil prices have skyrocketed. The GOP is paying USD 554 million per month for subsidies on

petroleum and will attempt to reduce these subsidies in the coming fiscal year despite the intense popularity of such measures with the public.

¶10. (SBU) The prices of basic agricultural commodities have steadily risen over the past year, including the cost of key staples such as wheat, rice and cooking oil. Pakistan has been suffering from monthly double digit food price inflation since September 2007. Over 100 million Pakistanis live on less than 2 dollars per day, including 25 million living on less than one dollar per day. The World Food Program recently identified Pakistan as one of 40 countries at risk of food insecurity and recently raised its estimate of at-risk individuals from 60 to 77 million, or 48 percent of Pakistan's population.

FATA Development Plan

¶11. (SBU) USAID's Office of Transition Initiatives has begun work on small projects in all seven agencies of the Federally Administered Tribal Areas (FATA). Working with the FATA Secretariat, we have also begun to implement our livelihoods, health/education and capacity development projects. We would be happy to brief you on these projects, our measures to monitor spending of this project-based assistance, and efforts to improve coordination among other donors.

PATTERSON